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Dominican Republic

Grain and Feed

Rice Production and Situation Update 2008

Approved by:

Jamie Rothschild, Agricultural Attaché
U. S. Embassy

Prepared by:

Carlos G. Suarez, Agricultural Specialist

Report Highlights:

The Dominican Republic will likely import rice over the next few months due to a production shortfall. We expect that imports will surpass the 2009 tariff rate quota (TRQ) of 12,800 MT. Currently (2008), rice production is estimated at 390,000 metric tons due to unfavorable weather conditions. We expect an update of this estimate at the beginning of the year. Consumption is estimated to have stabilized around 436,000 MT. Rice is considered one of the most "sensitive" products grown in the Dominican Republic. Therefore under the DR-CAFTA agreement, the rice TRQ is maintained for 20 years. According to the latest phytosanitary regulation available, the country continues to have a zero tolerance for tilletia (*Tilletia barclayana*). We do not believe that trade has been impeded by this regulation recently.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Santo Domingo [DR1]
[DR]

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Executive Summary

The Dominican rice production estimate for 2008 is anticipated to have a shortfall as a result of weather damage during the hurricane season. As a result total output for the year has been preliminarily set by the industry at 390,000 metric tons. Official confirmation of this information will be available in January 2009, when inventories are verified. Forecast for 2009, if no new developments in agricultural policy and weather allows, should return to 410,000 metric tons.

In 2007 consumption remained flat at 436,000 metric tons and estimates for 2008 and the out year will remain slightly above these levels. Demand has remained high due to relatively stable prices, higher demand from the tourism sector and being an essential carbohydrate source in the Dominican diet.

Imports over the last ten years (1998-2007) averaged 42,600 metric tons per year with an all time high in 2004. All imports originated from the United States because of proximity, quality and price. Imports have gradually decreased in that period to 15,200 metric tons in 2007. Production shortfall in 2008 will force higher imports for the end of 2008 and into 2009. Estimates for 2009 are expected to be at least 25-30,000 metric tons.

The Dominican Republic Central America Free Trade Agreement (DR-CAFTA) agreement with the United States is approaching its fourth year of implementation (2009). Within the agreement, the trade quota system provides protection for rice for twenty years with a small tariff rate quota for U.S. brown and polished or milled (12,800 MT for 2009).

The Dominican Republic maintains a phytosanitary regulation for zero tolerance of *Tilletia barclayana* on rice. Apparently there is a small tolerance allowed for milled rice. U.S. milled rice exports have not been impeded by this regulation for several years.

Production

Total output for 2008 is estimated at 390,000 MT, and these figures will be officially confirmed by the government and industry in early 2009. Forecast for 2009, if no new developments in agricultural policy and weather allow, could easily exceed 410,000 metric tons.

There are two crops of rice per year in the Dominican Republic: The main production is in spring (55-60%) and a secondary one is in the fall (35-40%). The main variety used is a hybrid developed local variety called Juma-64. Data is reported on a calendar year basis. There are three main production areas in order of importance: the Central (la Vega, San Francisco), North Western (Monte Cristi) and North Eastern (Duarte province) regions.

Summarizing recent years, Dominican rice production averaged almost 250,000 metric tons during the period 1997-2000. As a result of policy changes at the time, which allowed raising producer prices and restricted imports, promoted production and total output began to increase rapidly during the following three years to reach 350,000 metric tons by 2002/2003. This jump in production during that period created an oversupply situation 2003 which was reflected in 2004, a general election year. That year production dropped to 280,000 metric tons and imports reached the historical high of almost 100,000 MT.

Nonetheless, production recuperated and has increased at a slower rate in 2005 and 2006 to an average of almost 400,000 tons. 2007 preliminary production estimates from the industry placed total output at 420,000 metric tons. In early 2008, first round estimates anticipated an increase in production to 450,000 metric tons. Unfortunately weather related problems have lowered total output. Heavy rains in Dominican rice production areas during the August-September 2008 and again in October caused considerable wind damage to the mature rice crop in many fields and reduced the secondary rice crop size by 35 per cent. The most affected areas were the rice producing regions in the North West or "La Linea" and the North East or "Bajo Juma".

In addition to a large number of small rice mills, the main producers/processors of rice in the rice industry, in order of size are: The Dominican association of rice millers (ADOFA), with 58 members; and individual companies such as: Font Gamundi; Pimentel y Cia., Arturo Bisono CxA; COPEARROZ (coop); Rafael Nuñez CxA; J. Miranda; Agrocosa; Franklyn Hernandez CxA and Arrocería Mao.

Production Policies and Subsidies

The Government, through the Rice Commission (RC), composed of the Secretary of Agriculture, Agricultural Bank Administrator, millers associations (ADOFA) and individual millers, are responsible for the keeping track of production statistics, control domestic prices and establish overall policies related to rice. It is responsible for subsidizing production surpluses through a staging procedure referred to as "pignoración" in Spanish. This procedure allows the millers to purchase rice from the producers, store it and place it in the market when needed, up to a maximum of four months. At the end of the period, the Government covers the financial costs of storage. In 2007, the main harvest of 270,000 metric tons (5.9 million quintals) was "pignorized". After all expenses were calculated, the Dominican Government paid about RD\$ 600 million or about US\$ 17 million to domestic millers.

Consumption

Consumption in 2007 has remained flat at 436,000 MT and estimates for 2008, because of higher prices remain at the same levels. The out year (2009) is anticipated to remain at the current levels.

Apparent consumption for 2002 and 2003 was somewhat stagnant at about 325,000 metric tons. Population growth and higher demand from the tourist sector are the main reason for the increase. Nonetheless, general elections in 2004 with a shortfall in production and large volumes of higher quality rice imported from the United States, at a lower price helped Dominican consumers increase rice consumption to 380,000 metric tons.

Consumption in 2005 also showed a dramatic increase as a result of the abundance of rice in the market which kept prices low. This in turn moved use up to surpass 458,000 metric tons. In 2006, as prices stabilized and imports and production increase marginally to decreased in imports, utilization also decreased and flattened to 436,000 metric tons.

Trade

Production shortfall of the secondary harvest in 2008 will force imports of 30,000 metric tons to cover shortage before the end of 2008 and into early 2009, before the main harvest in April 2009. Total estimates for 2009 imports, can be 25-30,000 metric tons.

During 1998-2007 yearly rice imports were exclusively from the United States and averaged 42,600 metric tons. Average imports in the 2005-2007 averaged 36,600 after an all time high of 97,000 metric tons in 2004. Imports since have gradually decreased to 15,200 metric tons in 2007.

All imports originated from the United States for proximity, quality and price. It is important to note that the higher international prices in the second half of 2008, has slowed down imports below 2007 levels during the first three quarters of the year. Nonetheless, the recent decrease in international prices and the shortfall in production will stimulate imports in the last quarters of 2008 and the first quarter of 2009 (Oct 2008-March 2009) to the levels stated in the previous paragraph.

The Dominican Republic Central America Free Trade Agreement (DR-CAFTA) agreement with the United States is approaching its fourth year of implementation (01-01-2009), where the participating nations established a framework for transparency and a science-based system of trade. The agreement establishes a quota and safeguard system to protect a number of sensitive products such as rice. A small tariff rate quota for U.S. brown and polished or milled rice exists and in its fourth year TRQ for brown rice for 2009 is 2,560 metric tons and 10,240 metric tons with a 6-7% increase per year established in the agreement (Annex 3.3-DR Notes 19 and 20). 2010, the fifth year of the agreement for both types of rice should reach 13,500 MT.

Trade Policy

Zero tolerance for the presence of *Tilletia barclayana* on rice continues to exist for paddy rice. Apparently there is a small tolerance allowed for milled rice. The GODR claims that this fungal infection is not present in the country nor has ever being reported.

Policy

Enter policy text here Over the past several years, rice producers and millers have been able to convince the Dominican Government, through the Rice Commission, to recognize higher and higher production cost levels, which are the basis for setting producer rice prices through negotiations between producer groups and the Secretariat of Agriculture. In addition, and in recent years, President Fernandez has instructed the Government-owned Agricultural Bank (*Banco Agrícola*) to provide additional support to the rice sector in the form of subsidized loans, in an effort to increase rice production and eliminate the need for imports. In effect, the Agricultural Bank provides loans to producers at an interest rate lower than the prevailing bank rate, providing an indirect subsidy to rice production.

In addition to the above (pignoracion and direct subsidy through ADOFA), the Government through the Agricultural Bank, millers associations and individual millers subsidize the excess crop through a staging procedure called "pignoracion", already described in the text.

Marketing

Marketing Channels

About 50 percent of rice production, particularly from medium and small producers/processors, is marketed to wholesalers, via agents (middle man representing the processors). They in turn sell to retailers. Other larger and consolidated groups (large federations, associations and cooperatives) market directly to wholesalers and supermarket groups, who in turn retail at their stores or other smaller convenience stores called "colmados" in Spanish.

In 2008, the high international prices of inputs and rice itself, forced the rice commission, including the producers to increase domestic prices. With such pressure in a general election year, the government negotiated with the rice millers a direct subsidy for the wholesalers covering some of the spring crop of 11,400 metric tons at RD\$600/125 lb. bag. The government paid the producers via the rice factory associations about RD\$120 millions (US\$3.5 M).

Prices

Current Dominican prices (October 2008) at the miller level is RD\$2,175/ fanega (120 kg of green rice equivalent to 160 lbs of rice) or US\$0.39/lb equivalent. Wholesale level for the two higher-quality rice varieties called "selecto" and "super selecto" are in the range of US\$0.52-0.54 per pound in 125 lbs. bags. Retailers in turn sell it at about US\$0.64-0.62 per pound. The landed cost of higher-quality imported milled rice from the United States is currently too volatile to quote although an importer recently quoted at US\$0.37 per pound C+ F bagged.

Rice grades are as follows:

Super Selecto A	6% broken
Super Selecto B	12% broken
Selecto A	15% broken
Selecto B	25% broken